

Bihar Inclusive Finance Bulletin

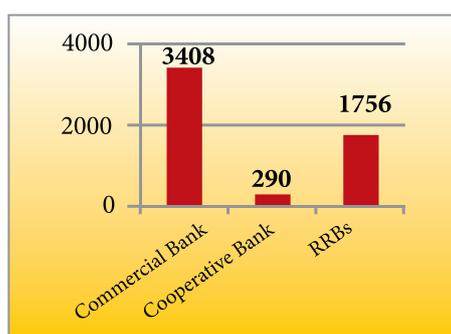
Volume 1, Issue 1, February, 2014

Published by ACCESS-ASSIST under the Poorest States Inclusive Growth (PSIG) Program

Report on Status of Financial Inclusion and the Way Forward in Bihar

This report provides an overview of the status of financial services in Bihar particularly with reference to the status, challenges, and plans for the future and recommendations to achieve the projected goals. An integral aim of the document is to understand the gaps and key constraints of the stakeholders in achieving their targeted goals and also to arrive at a demand-supply gap in access to finance in the State.

Bihar's exposure to the banking services is very limited and hence per capita availability of financial services in Bihar is considered to be the lowest in the country. The current (as on Sept. 2013) outreach of banks is through a total of 5,454 branches. In Bihar, 2,242 villages have been covered by the banks



Bank Coverage in Bihar

with population of 1,600-2,000. But, 810 villages need more to be covered.

But still, in Bihar only 44% of population avail banking facility in compare to 58% of national average.

Jeevika has been appointed as nodal institution by GoB to roll out activities of NRLM in the state with the aim of forming 1 million SHGs covering 12.5 million households by 2017. Up to Sept. 2013 around 1 lakh SHGs have been formed by Jeevika.

Performance of JEEVIKA in Bihar

Indicators	2012-13	As on Sept. 2013
SHG Formation	76,717	99,928
Saving accounts opened	57,451	73,542
Credit Linkage	46,251	51,355
Amount (in crore)	227.16	254.32

Several other initiatives and programs like Women Development Corporation, Bihar Mahila Samakhya Society and RGVN have also been very actively promoting financial inclusion in the state.

Post office plays a critical role in financial inclusion. Of the total 9,060 post offices in Bihar, 8,587 are located in rural areas.

In terms of the projected goal, the Government of Bihar aims to achieve 100% financial inclusion by ensuring that each family in rural area has at least one bank account. Concerted efforts to augment financial services and to achieve the State's vision of 100% financial inclusion are being made by the Government of Bihar through BRLP (Jeevika), SBLP, NABARD, LIC, PFRDA, post offices as well as alternate channels, i.e., microfinance organizations and private agencies.

Financial Inclusion update:

- Bihar Innovation Forum II has awarded 67 social innovators who have developed impactful rural enterprises across India.
- RBI directed to all private Sector Banks to provide loan to Women SHGs at 7% interest rate.
- SLBC 47th Review meeting to be held on 28th February, 2014.

State Financial Inclusion Forum set up in Bihar

Under PSIG programme setting up a multi stakeholder State Financial Inclusion Forum (SFIF) in focused states is a key mechanism to achieve the objectives under policy advocacy component of the project. This forum will meet on quarterly basis. First meeting of Bihar SFIF was held on 24th January, 2013 in Patna. Members comprise officials from RBI, NABARD, Banks, RRBs, MFIs, Post office, SHPIs, Insurance Company. This was the introductory meeting. Presentation on PSIG project and ACCESS to Finance Report – Bihar was given and discussion was made mainly on convergence between different stakeholders, financial literacy, customization of products, issues in different financial inclusion channels. It was decided that within the forum sub groups will be formed to address different issues of financial inclusion. Next meeting of SFIF will be held on Pension theme in March.

Performance of MFIs and SHG Bank Linkage in Bihar

The term micro-finance refers to small-scale financial service both credit and savings—that are extended to the poor in rural, semi-urban and urban areas. Micro-finance sector has grown rapidly over the past few decades. With the financial inclusion emerging as a major policy objective in the country, micro-finance has occupied centre stage as a promising conduit for extending financial services to unbanked sections of population.

As per Sa-Dhan Report – 2013 there are over 21 MFIs having operations in the state working mainly in the backward districts. The MFIs in Bihar have reached out to 1.25 million clients in 36 backward districts with a portfolio outstanding worth Rs. 8,953 million. Apart from multi-state MFIs, prominent home grown MFIs with noteworthy coverage are Saija, CDOT and Nidan.

Performance of SHG in Bihar is not good in compare to national average. Potential rural household to be

Coverage of MFIs in Bihar, as on Sept. 2013

Name of the MFIs	No. of districts	No. of Clients	Loan outstanding (Rs. million)
Bandhan #	33	6,51,280	5,970
Cashpor#	11	1,75,545	1,583.14
Ujjivan*	6	56,349	589.63
Saija	5	31,967	301.85
BSFL	12	18,969	121.09
CDOT	3	13,399	102.78
Nidan	8	9,672	75
CPSL	8	16,048	8.57
GJKP	1	6,000	2
Arohan#	6	43,410	369.5

Snapshot of 10 MFIs as on Sept. 2013
Data till Dec, 2013

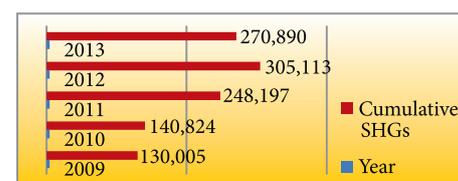
*Data till March, 2013

covered by SHG is 75.67 lakhs out of which only 35.22 lakhs households are covered. Saving and credit/SHG are also low in Bihar. Average saving/SHG is Rs. 6,264 and average credit/SHG is Rs. 72,616 against Rs. 11,230 and Rs. 168,757 national average respectively.

Microfinance through Banks

Bank	S B A/C opened	Credit linked	Amt. (in lakhs)
Commercial Bank	28,700	18,417	10,619
RRBs	17,319	10,170	9149
Total	46,019	30,297	19,768

While the state still account only 4% of the SHGs in India, the bank linkage programme is gradually gathering momentum.



Status of SHG Bank Linkage in Bihar

This decline can be attributed to banks now reporting only operative Savings accounts of SHGs and in few instances of banks closing down accounts with 'Nil' balances in SHGs savings accounts.

If we see the overall performance of the Bank, the banks are now seeing the SHGs as a new mode of business. The attitude of the bank has changed in recent five years.

Challenges before MFIs

Micro Finance has always been considered an important tool for poverty alleviation though its reputation has taken a beating owing to reports of suicide of Micro Finance Borrowers and subsequent clamp down of Microfinance institutions by Andhra Pradesh government.

It was only after RBI took active steps to regulate the sector and the Indian Government started the process of consultation with the stake holders that some reputation of Microfinance could be salvaged. Currently the government of India is in larger consultation with various stakeholders to put an effective mechanism to regulate and help grow the sector.

Challenges on the National Front

- The rejection of Microfinance bill by the Parliament standing committee and its direction to government to bring fresh bill after wider consultation.
- The credit inflow to Microfinance sector by Banks and other financial institutions have been curtailed specially to smaller institutions
- The investment to the sector in terms of private equity and impact investing has also come down drastically
- The interest ceiling on microfinance (RBI regulation) lending has reduced the yield for microfinance companies
- New regulation around prevention of over-indebtedness (RBI Guidelines for Microfinance loan) and emergence of credit bureau had a positive impact on multiple borrowing and over borrowings but it has increased the cost of operation for Microfinance companies.

Microfinance Scenario in Bihar

Bihar presents an interesting paradox for the microfinance companies. At one end the microfinance companies operating in Bihar faces huge challenges in terms of infrastructure, natural calamities, low productivity, and relatively lesser skilled human capital and on the other end Bihar presents a huge opportunity for microfinance companies in terms of availability huge unserved population. As on September 2013 all Microfinance companies (MFIN member) put together serves around 1.3 million customers with its 513 offices in the state. The combined portfolio outstanding of these MFIs in state is more than 100crores. Some challenges specific to the state:

Challenges at the state level

- Since Bihar is still the negative zone for most of the banks, it is very difficult for microfinance companies operating out of Bihar to attract debt fund.
- The cost of raising finances is very high in Bihar owing to the risk perception of Bankers and financial institutions about Bihar
- Availability of quality human resources especially in the area of IT and Finance
- Infrastructure challenges in terms of availability of electricity, reliable internet supply, facility of commutation, reliable courier services etc.
- Fragile law and order situation in Bihar with frequent reports of snatching, theft etc.

Mr. S R Sinha

CMD, SAIJA Finance Pvt. Ltd.

Micro Insurance: Bihar

Microinsurance is a financial arrangement to protect low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. The beneficiaries typically consists of persons ignored by mainstream commercial and social insurance schemes, as well as persons who have not previously had access to appropriate insurance products.

For a state with as high poverty levels as Bihar, micro insurance services, both of life and livelihood, assumes to be an integral component of financial inclusion. LIC is the prime provider of micro-insurance schemes for the rural poor in the state. It offers such schemes through NGOs, SHPIs and MFIs. The micro-insurance department of LIC offers two prime products, namely, *Jeevan Madhur* and *Jeevan Mangal* and has recently introduced a third product *Jeevan Deep*. Of the three, *Jeevan Madhur* is most popular among SHG women as it is a flexible savings also administers the social security scheme of the Government of India, namely,

Aam Admi Bima Yojana (AABY) meant for workers in the unorganized sector. *Aam Admi Bima Yojana* has coverage of 139,162 lives till September, 2013. *Jeevika* has major share in AABY. Some private companies like *Birla Sun life and Kotak Mahindra* have come forward with customized micro insurance schemes for the poor.

Under Health Insurance Scheme, to ensure social security, 66 lakhs households have been insured under *Rashtriya Swasthya Bima Yojana* as on Nov, 2013.



Roundtable on Micro Insurance, Patna

Agriculture Insurance Company have been provided crop insurance to around 9.7 lakhs farmers as on Sept. 2013. *Cholamandalam, IFFCO-Tokyo, ICICI Lombard* are other major companies.

Extending Micro Insurance to Crop, Livestock and Natural Catastrophe

MIA initiated their pilot program “Swasthya Kamal” in July 2011 in the Mahua Block of the Vaishali

Health Micro Insurance, “Swasthya Kamal” by MIA

	2012-13	2013-14 (till 19th Feb, 2014)
No. of Villages	87	125
Premium (PPPY)	197	197
Individuals enrolled	1898	1487
Households enrolled	598	538
Premium Collected	373,320	291,787
Claims	291	201 (till Dec, 2013)
Amount of claims	98,175	85,545
Renewal rate (individual)	66%	31%
Renewal rate (household)	75%	44%
Claim Ratio	0.26	-
PPPY - Per person per year		

Insurance is often seen as investment by people, and they want return on their investment. Financial literacy of people is very crucial to make them understand the importance of insurance for everyone.

District in Bihar. “Swasthya Kamal” is a community based program for health insurance in villages where people have now; through sustained efforts understood the importance saving for such unforeseen contingencies as death, illness and natural calamities. The program runs on a proprietary and participatory process called the CHAT(Choosing Health Plans All Together), where communities get to pick from a variety of insurance products that require different didifferent premiums per person per year.

Currently in its third year of operation, the program is proving to be self-sustainable. The donor will exit in 2014, while MIA will continue to provide technical assistance to the community and the implementing agency as needed.

The Vision forward, is to scale up “Swasthya Kamal” to the remaining districts of Bihar and expand the benefit package to encompass other insurance products like life, health, crop and livestock and natural catastrophe since a large part of Bihar’s agricultural belt is prone to natural calamities

Roundtable on Micro-insurance in Bihar: Challenges and Prospects

In PSIG Programme, it is envisaged to benefit poor and vulnerable people, especially women, by providing them financial access. One of the identified priorities within PSIG policy mandate is to undertake initiatives leading to increase outreach of micro-insurance in Bihar. ACCESS ASSIST has organized “Roundtable on Micro-insurance in Bihar: Challenges and Prospects” on 14th February, 2014 in Patna. This roundtable was attended by officials from public and private sector insurance companies, MFIs and SHPIs, officials from DFID and SIDBI, sector experts from CIRM, MIA and RSBY.

Discussion was mainly focused around three issues:

1. Availability of Products
2. Proper Channel: efficient service provide
3. Financial Literacy: at client and service provider level

Key takeaways are there is need to create niche market for micro-insurance products, need of data bank, assessment of viability gap, demonstrating pilots which are very important to do policy level advocacy etc.

Convergence between different stakeholders is very important to make micro-insurance products accessible to the people who are left behind mainstream.

Micro Pension: NPS Lite – Swawlamban

Experiences from Bihar . . .

As a part of the National Pension Scheme that was rolled out by the GoI initially only for government employees; NPS-Lite or the “Swavalamban Yojana” was introduced in 2010-11 to bring employees working in the unorganized sector under the umbrella of old-age pension.

For this purpose, the government of India authorized **Pension Fund Regulatory and Development Authority** to put in place the institutional framework and infrastructure required for administering the “National Pension System” (NPS).

The scheme is managed at the ground level by ‘**Aggregators**’ that have been appointed by the PFRDA to act as points of interaction between the subscriber and NPS-Lite.

National Securities Depository Limited (NSDL) has been appointed as the Central Record Keeping Agency (CRA) that issues Permanent Retirement Account Number (PRAN) that allows the customer a permanent identity under the pfrda and helps in receiving benefits from the scheme

Subscription to the Swavalamban scheme in Bihar according to figures received from the PFRDA currently stands at 16,202. This number is increasingly on the rise. Considering that the scheme is still in its initial year there are some glitches that are being faced by the aggregators, the regulators as well as the subscribers.



PRAN card issued to customers post registration

Our team spoke to some of the aggregators in Bihar, following are a few excerpts from these interactions:

JEEVIKA initiated micro pension as their pilot program in the Rajgir block in Pilkhi village. So far they have been able to enroll only about 55 customers to the NPS scheme. They seem to be facing some difficulties with the available infrastructure that proves as a hindrance in effective penetration. They also feel that since the concept of pension among people from the unorganized sector especially those residing in villages is a relatively new one, awareness building should be a key component for building a better and deeper understanding around the scheme.

CDOT, a successful Bihar based MFI has been in the field of micro pension for the past two years. They laud PFRDA's initiative and their system of recordkeeping which they feel is very transparent and enables speedy and ready availability of data. They agree that in the short run the scheme might not look very lucrative for aggregators, but in the long run, as the customer base expands, it would prove to be a profitable venture. They have, till date

enrolled about 14,000 clients out of which 8000 are ASHA workers. CDOT is also of realizes the importance of awareness building for which they use print as well as audio-visual media.

Enrollments with aggregators in Bihar

Aggregator (Bihar)	No. of Beneficiaries
LIC	13,561
CDOT	14,000
Srei-Sahaj	3,806
Saija (sub aggregator)	900

Saija Finance collaborated with IFMR and has been serving as a sub aggregator since 2011 and has enrolled about 900 customers since then. Surprisingly, in the case of Sija, the demand for this product came from the communities that they were serving. It was therefore through already existing demand that the product availability was pushed forward. Saija also, like the others believes in actively campaigning for the scheme to build a strong customer base.



The Poorest States Inclusive Growth Program (PSIG): The DFID assisted PSIG programme is being currently implemented by SIDBI in 4 poorer states viz. Bihar, Madhya Pradesh, Odisha and Uttar Pradesh. The program is envisaged to benefit the poor and vulnerable people, especially women by providing financial access to 12 million poor people, thereby helping in enhancement of their income and employment opportunities in the above four states including Odisha. ACCESS-ASSIST is managing the policy component of the program.

For sending contributions and queries please contact: [Aparna Shukla \(aparna@accessassist.org\)](mailto:aparna@accessassist.org) and [Shubhangi Jaiswal \(shubhangi@accessassist.org\)](mailto:shubhangi@accessassist.org)